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Improving Tobacco Taxation in Latin America

Lessons from the Cigarette Tax Scorecard, 3e

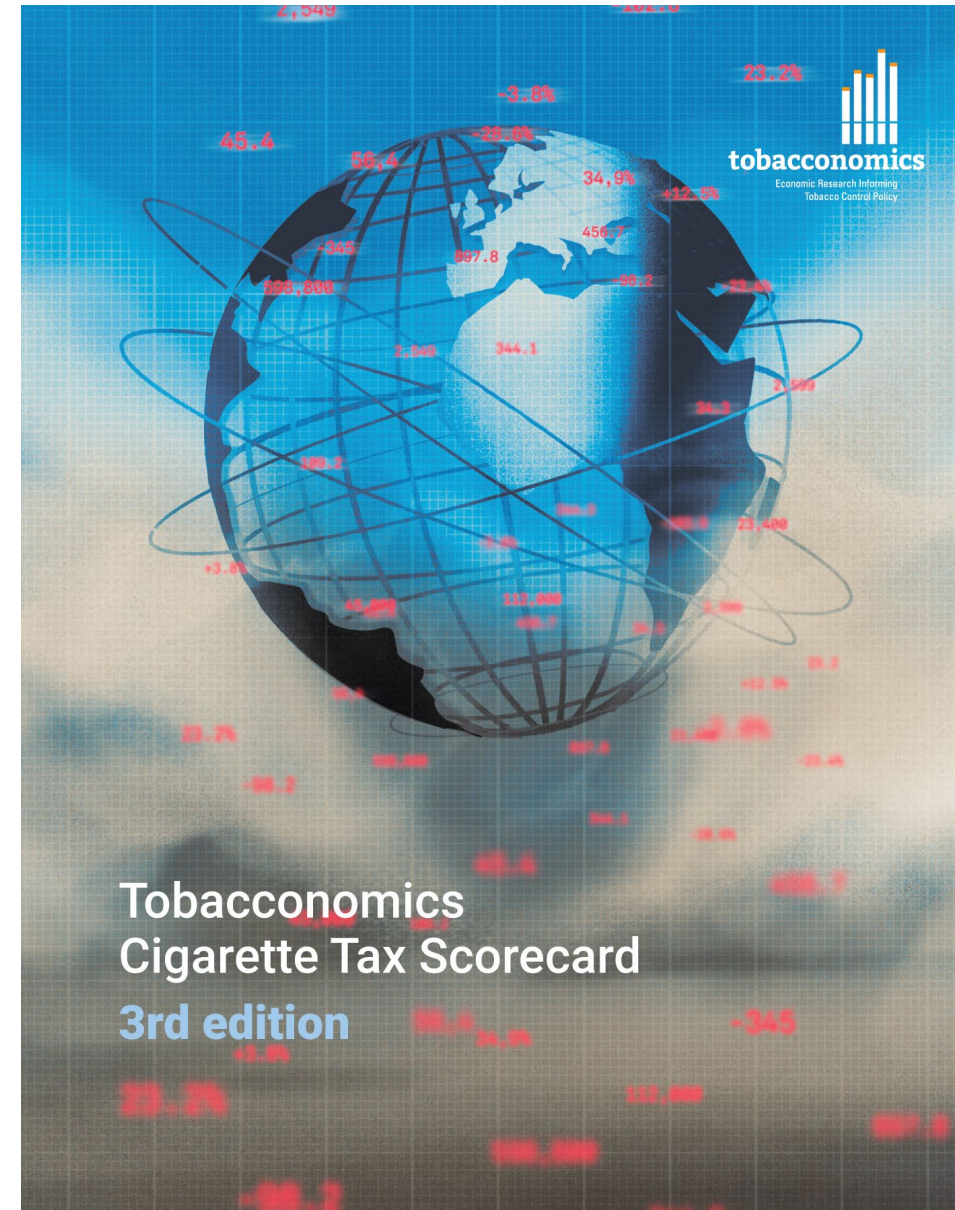
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Four Components

The Scorecard focuses on four key dimensions of cigarette tax systems:

- Cigarette prices
- Changes in cigarette affordability over time
- Share of taxes in retail cigarette prices
- Cigarette tax structure



Cigarette Tax Scorecard

- Uses data from WHO's biennial reports on the global tobacco epidemic
- Scores for 2022, 2020, 2018, 2016, and 2014
- Extensive peer review
- Based on recommendations and guidance from multiple sources



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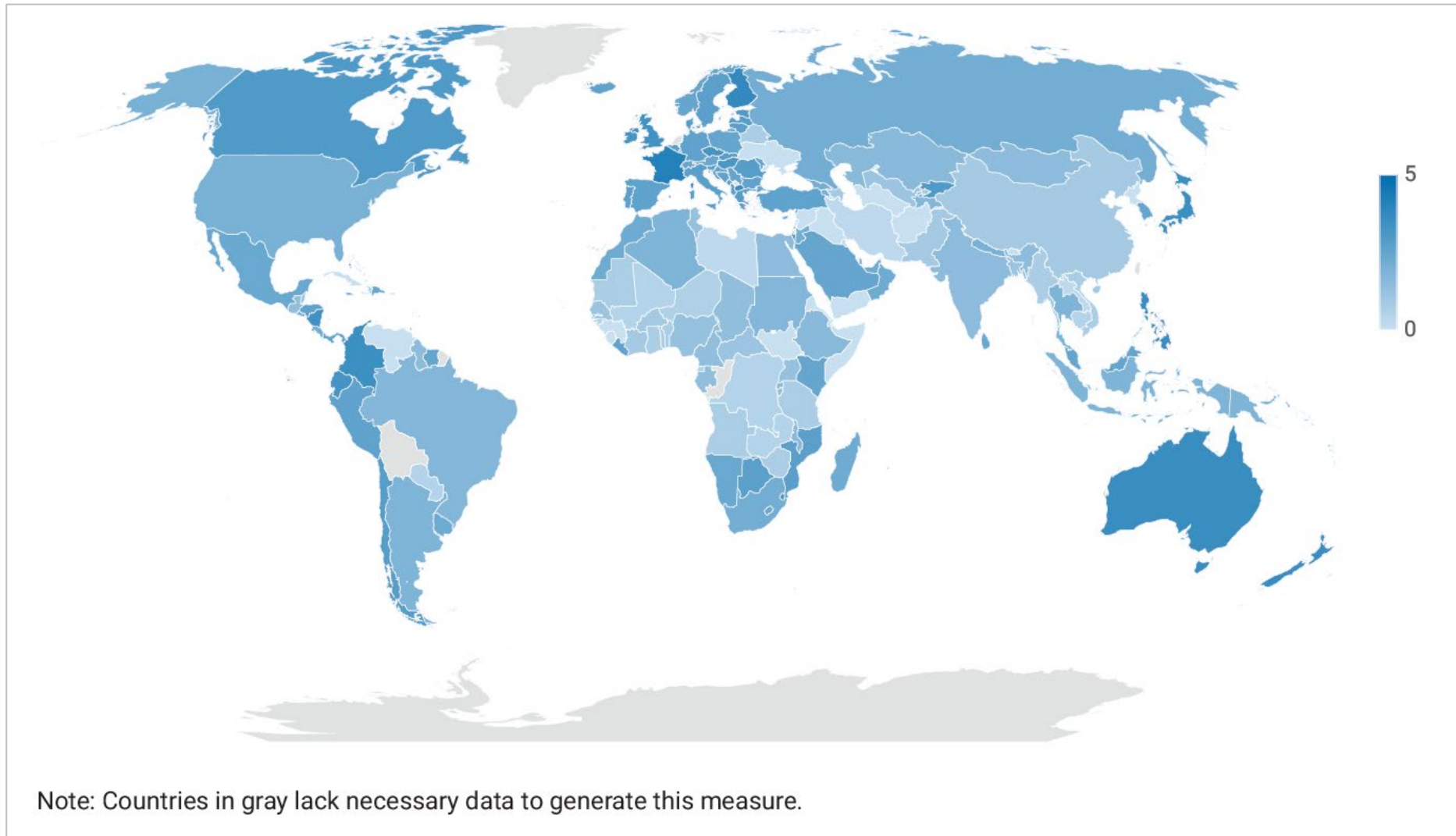


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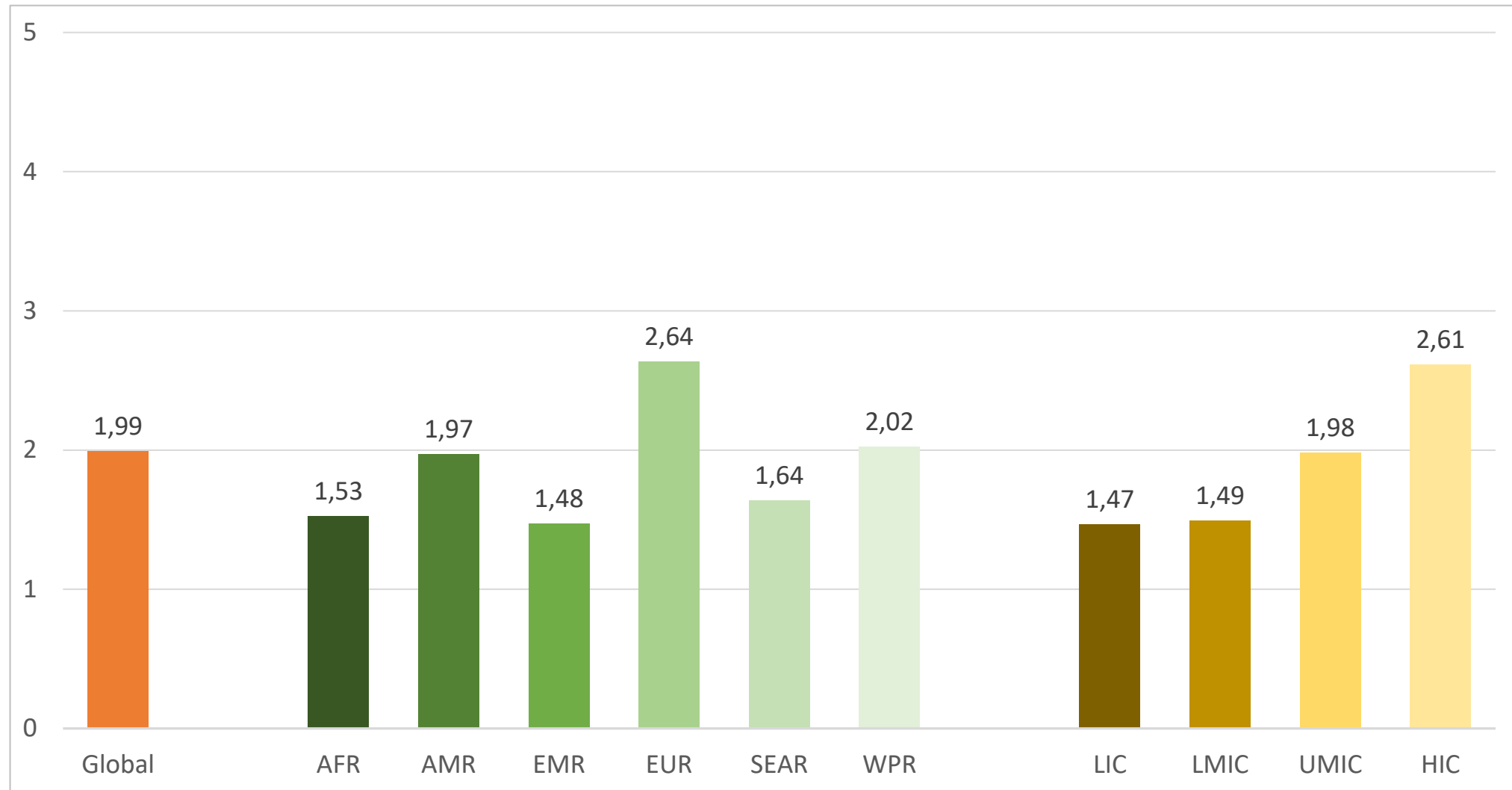
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Overall Scores

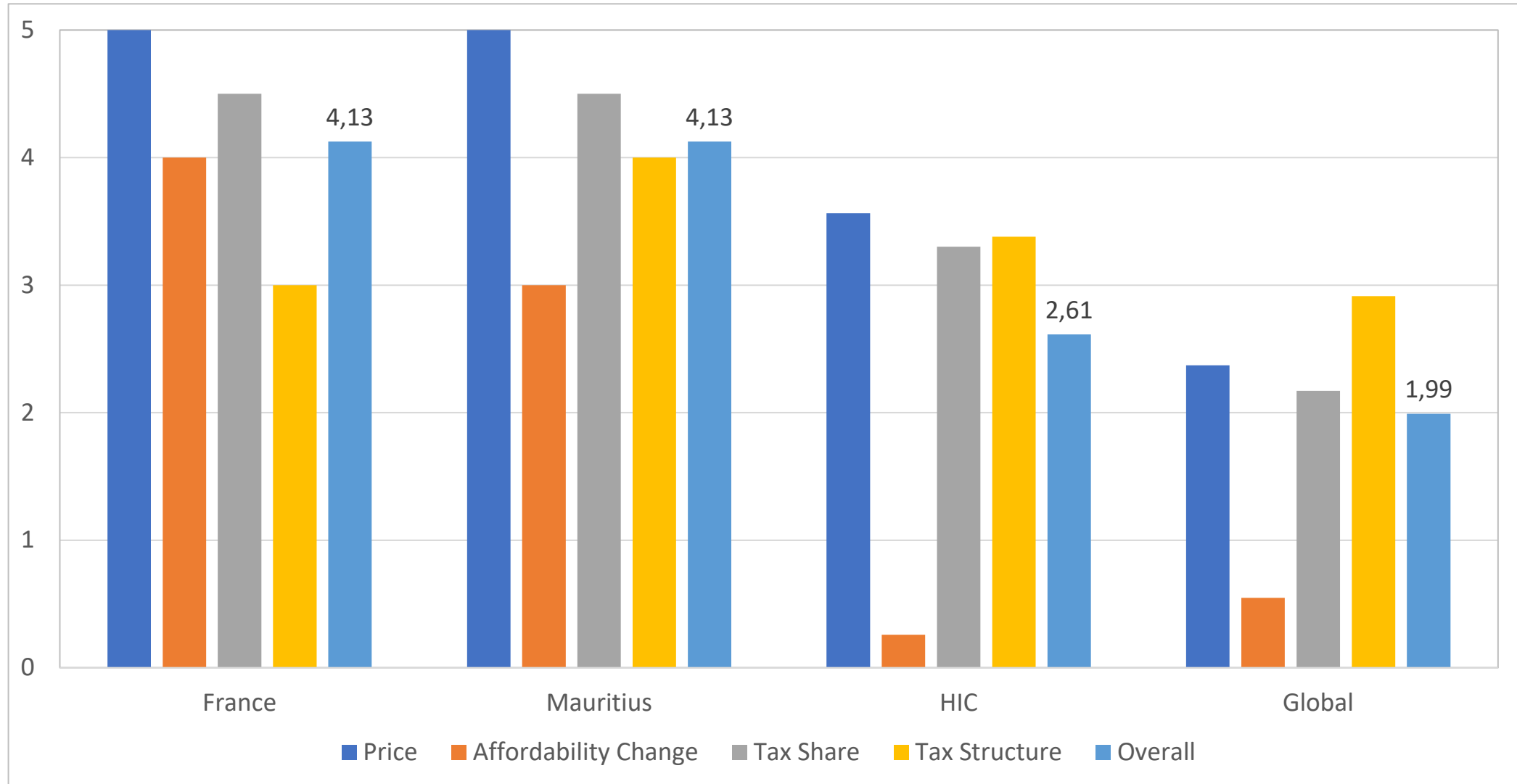
Overall Cigarette Tax Scores, 2022



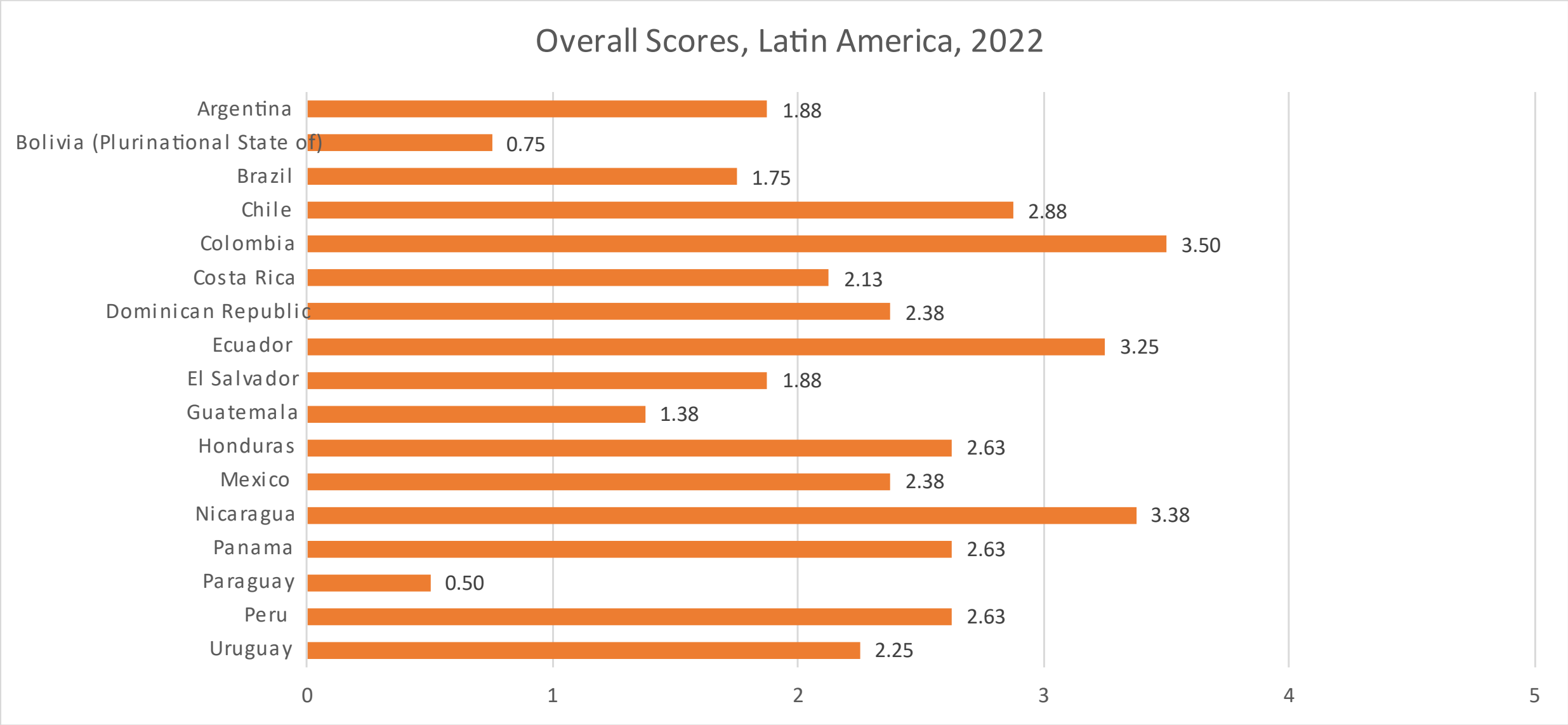
Overall Cigarette Tax Scores, 2022



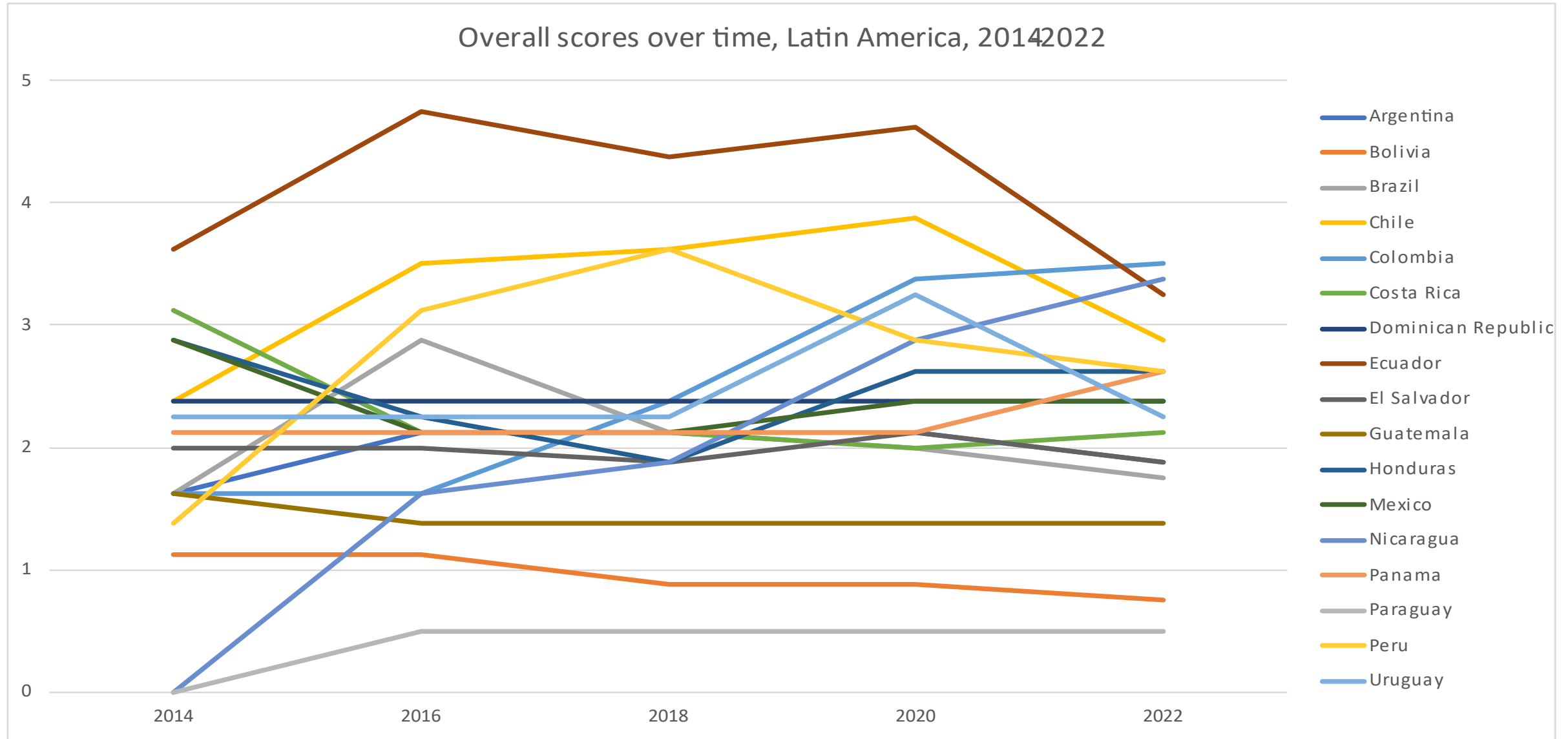
Top Performing Countries, 2022



Countries' overall scores for Latin America, 2022



Changes in overall scores for Latin America, 2014-22





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Score Component:
Price

Why is Cigarette Price Important?

Cigarette price is a key variable affecting smoking behavior.

- Higher prices generally reduce cigarette consumption.
- However, cigarettes are relatively price inelastic (an increase in price will result in a *less-than-proportional* decline in consumption) → Large price increases are necessary to affect consumption.
 - But inelastic means that consumption goes down, but tax revenues generally go up.
- Even when tax structure and tax share of price are ideal, tax systems will not be optimally effective in discouraging consumption if prices remain low.

How Does Cigarette Price Affect Consumers?

- ~1/2 of price-related declines in consumptions are attributable to reduced smoking participation (quitting or not starting); the remaining decline is due to reduced smoking intensity among those who still smoke.
- Youth are 2 to 3 times more responsive to tobacco price increases than the general population, explained largely by limited income, lower addiction levels, and peer effects.
- Evidence from both high-income countries and LMICs show lower socioeconomic groups are more responsive to price changes than higher socioeconomic groups.
- Therefore, the poor benefit the most from price-related reductions in smoking, thereby improving health and economic equity.

Cigarette Price Scoring Rubric

5: Price \geq 10.0 Intl\$ PPP

4: $8.0 \leq$ price $<$ 10.0

3: $6.0 \leq$ price $<$ 8.0

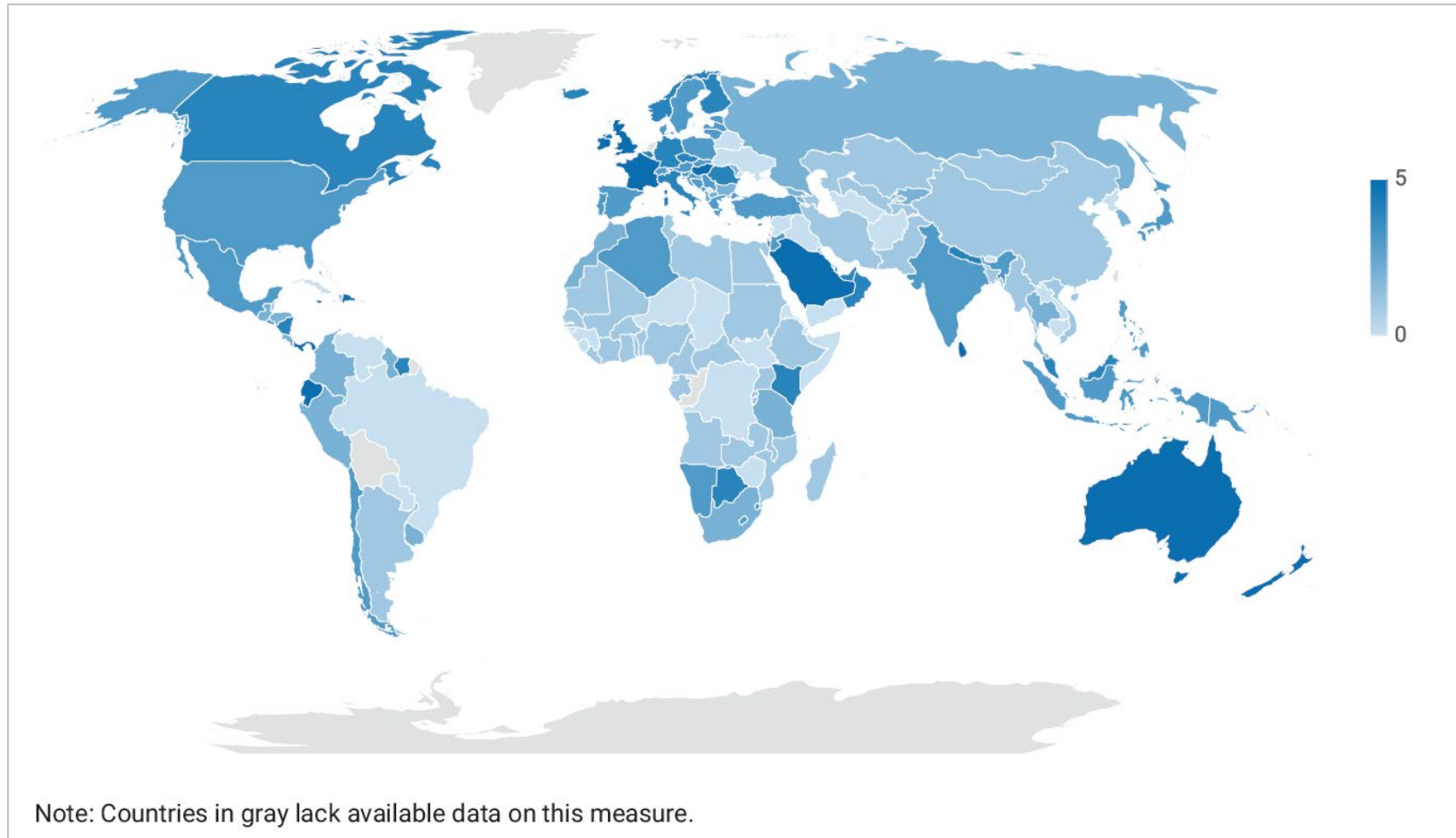
2: $4.0 \leq$ price $<$ 6.0

1: $2.0 \leq$ price $<$ 4.0

0: Price $<$ 2.0 Intl\$ PPP

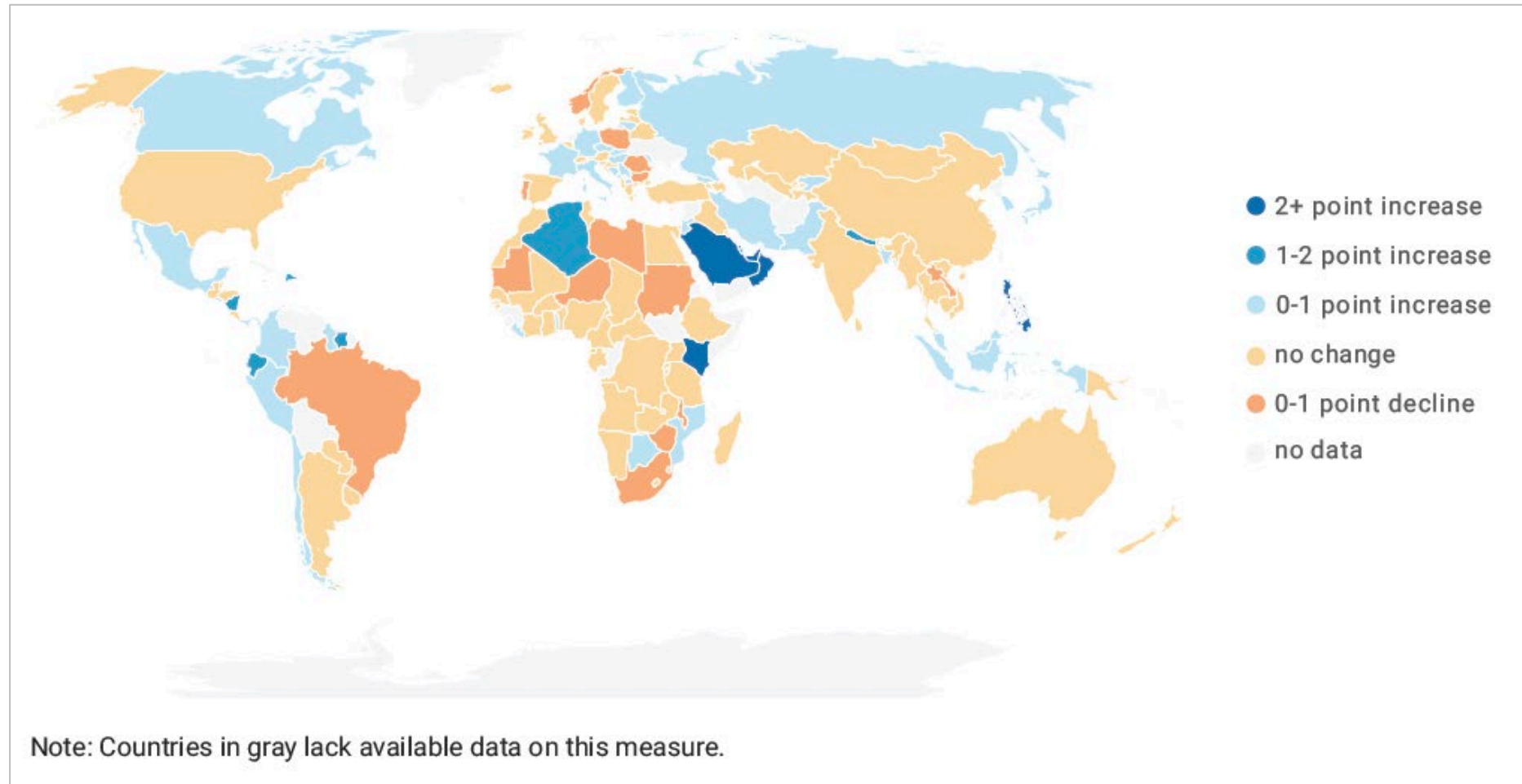
Cigarette Price Scores in 2022

Among 170 countries with available data, just 20 countries received the highest score of five, down from 28 countries in 2020. Fourteen countries received a score of zero in this component in 2022.



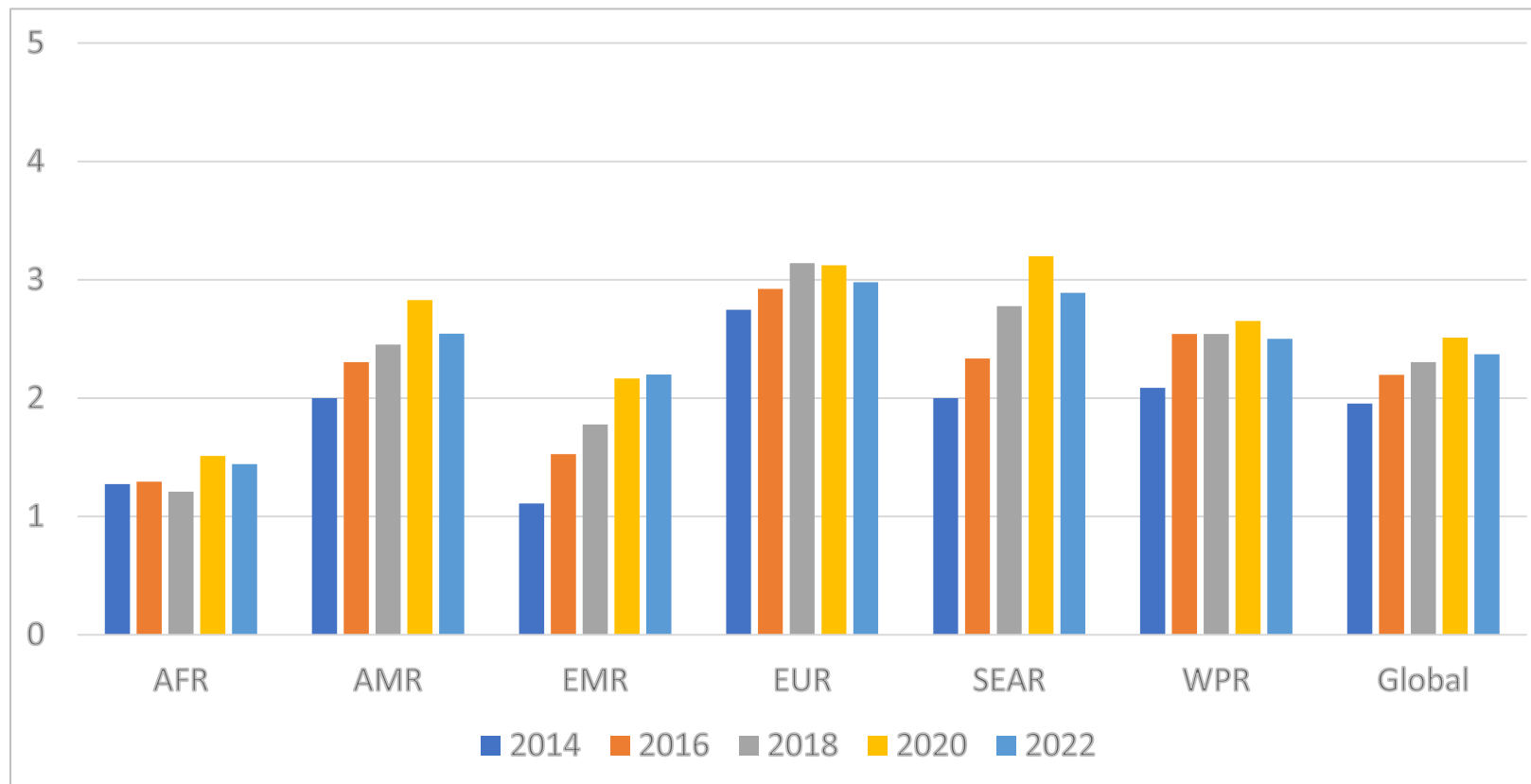
Changes in countries' price scores, 2014–2022

Despite the decrease from 2020 to 2022, cigarette price scores have mostly risen over time. Over the eight years of the analysis, seven countries have experienced more than a two-point increase, whereas eighteen countries have seen a zero-to-one-point decline.

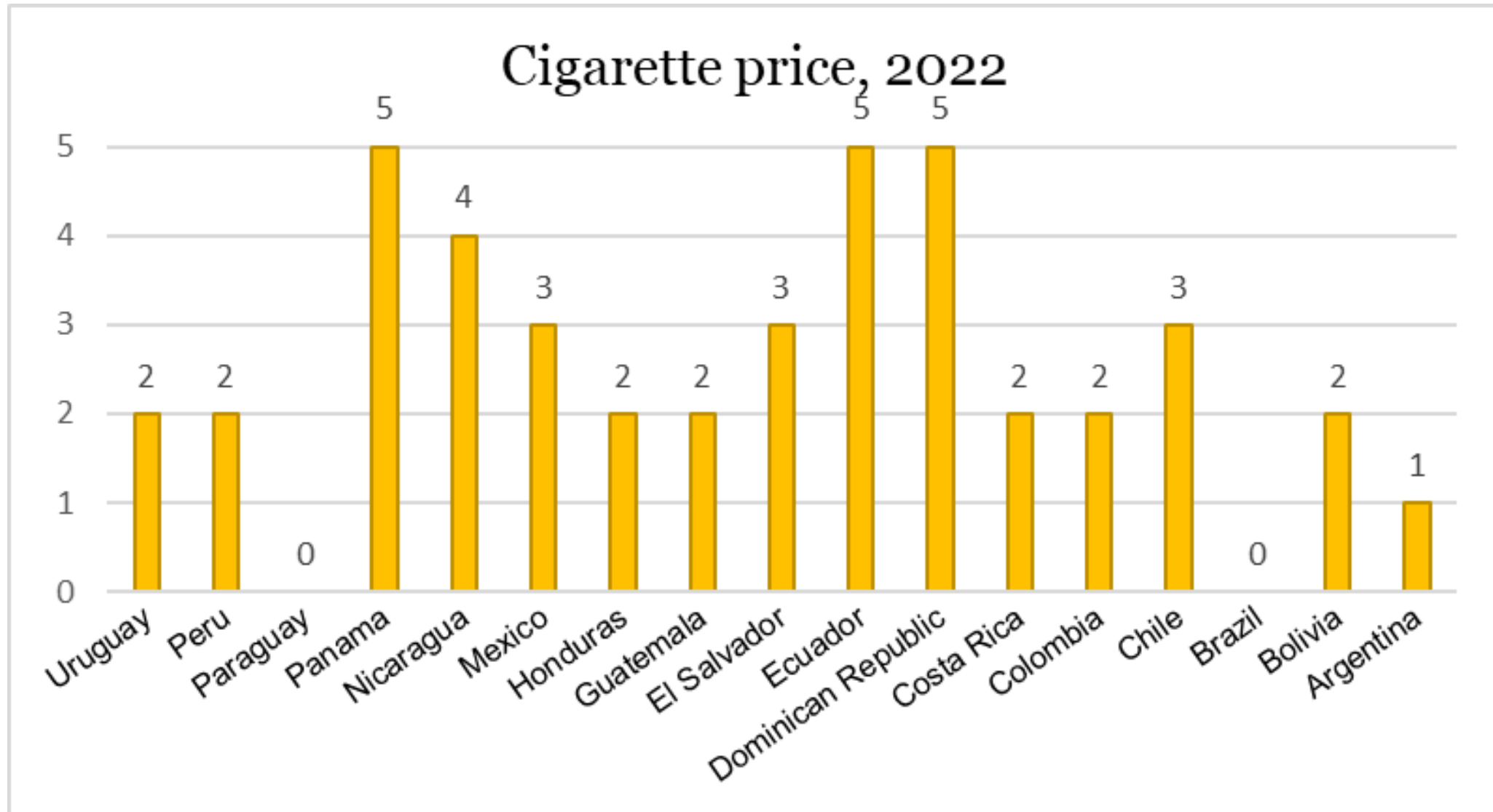


Average cigarette price score, globally and by WHO region, 2014–2022

From 2014 to 2020, average cigarette price scores rose across all WHO regions, but declined in 2022 except in EMR. Average cigarette prices were highest in the South-East Asia, Western Pacific and European regions and lowest in the African region. This pattern is similar to 2020.



Cigarette price scores in Latin America, 2022





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**Score Component:
Change in Affordability**

Why is Change in Affordability Important?

Affordability change is a key variable affecting smoking behavior.

- Cigarette consumption typically increases when prices decrease, while increases in income often result in greater consumption. Cigarette affordability addresses both price and income by reflecting an individual's ability to purchase cigarettes.
- In recent decades, many LMICs have seen rapid growth in incomes and inflation, and these increases in inflation and purchasing power can erode the impact of tax and price increases on consumption.

Change in Affordability Scoring Rubric

5: 7.5% average annual change or higher

4: $5.0\% \leq$ average annual change $< 7.5\%$

3: $2.5\% \leq$ average annual change $< 5.0\%$

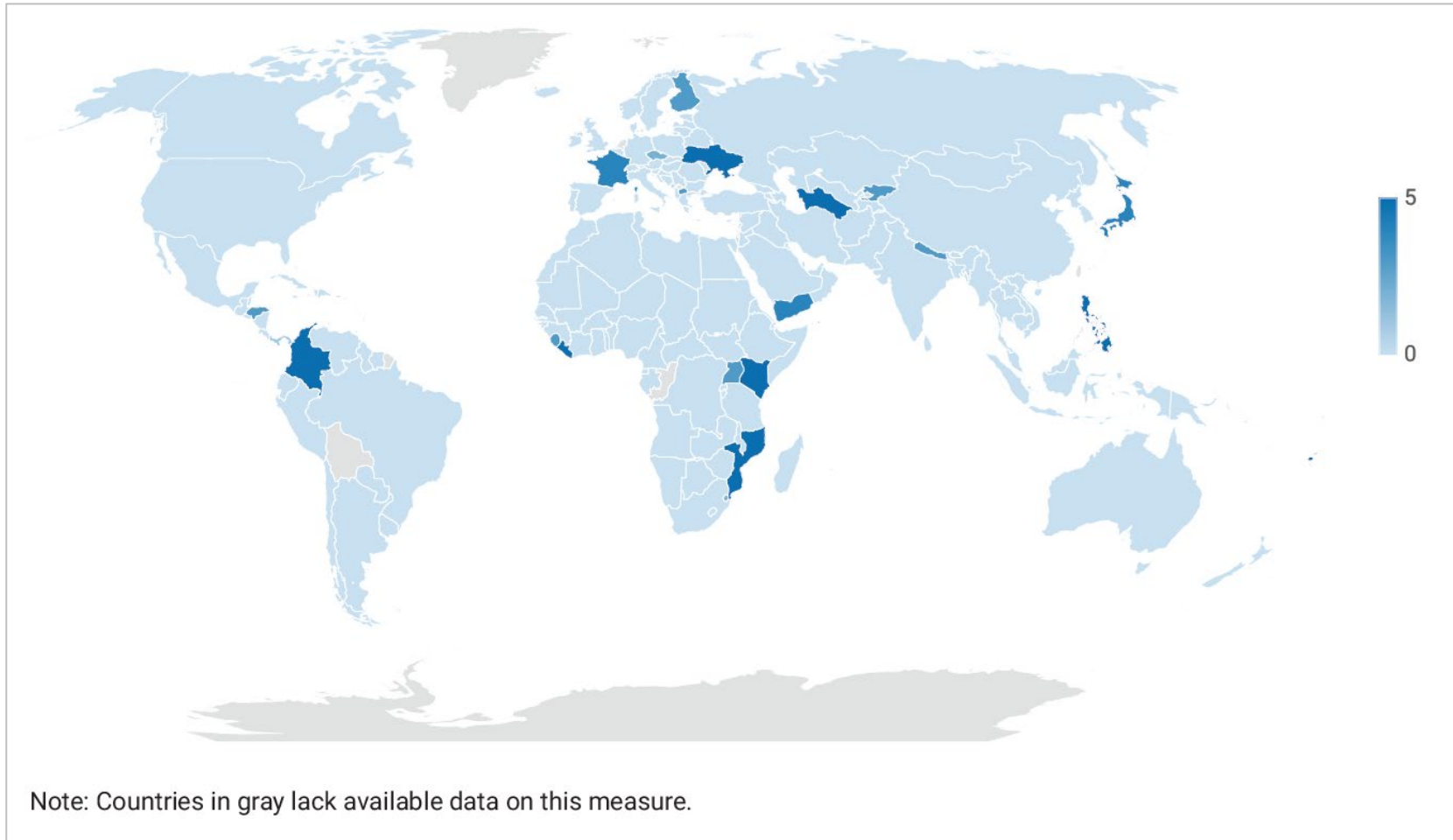
2: Average annual change $< 2.5\%$

1: Reduced affordability, but no excise tax increase

0: Increased affordability or no statistically significant change

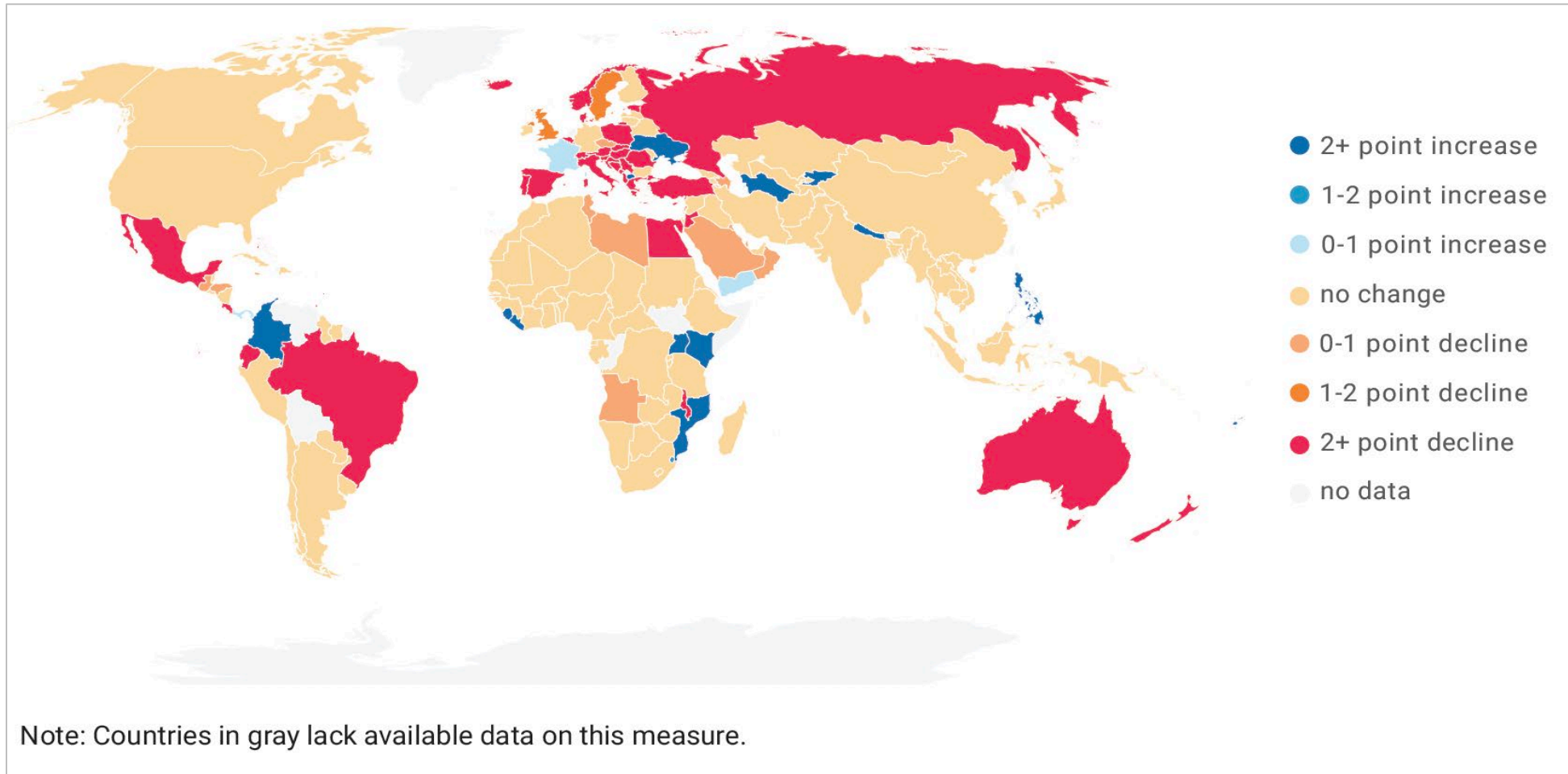
Affordability Change Scores in 2022

Among 188 countries with available data, only nine countries received the highest score of five in 2022, down from 26 in 2020. A large majority of countries—156 of the 188—received a score of zero (up from 116 countries in 2020).



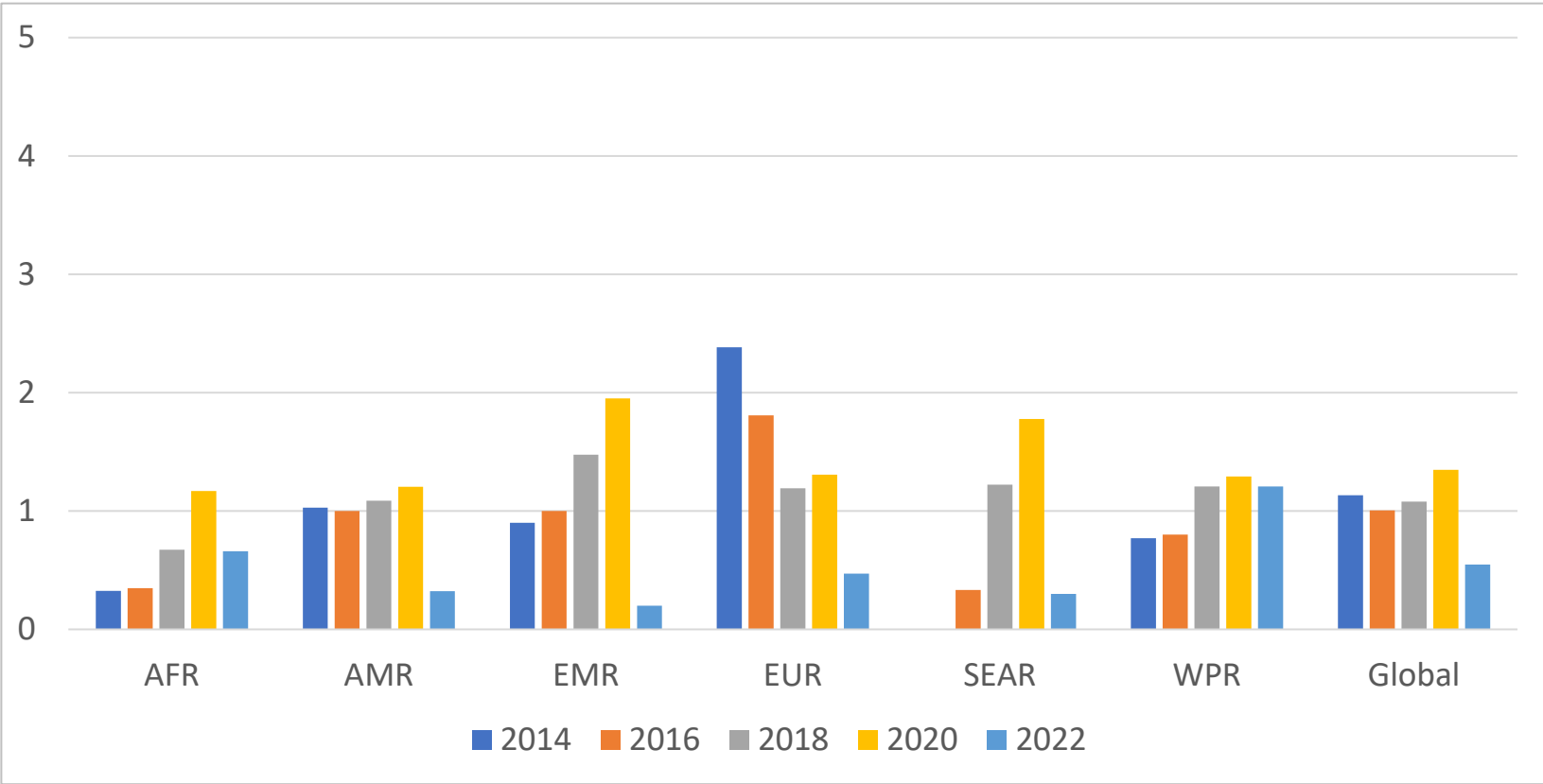
Changes in countries' affordability scores, 2014–2022

Cigarette affordability scores have been volatile. The 2014 global average score of 1.13 went up to 1.35 in 2020 but down to 0.55 in 2022. During this time, 15 countries experienced a more than two-point increase, but 41 countries saw a two-point-or-greater decline.



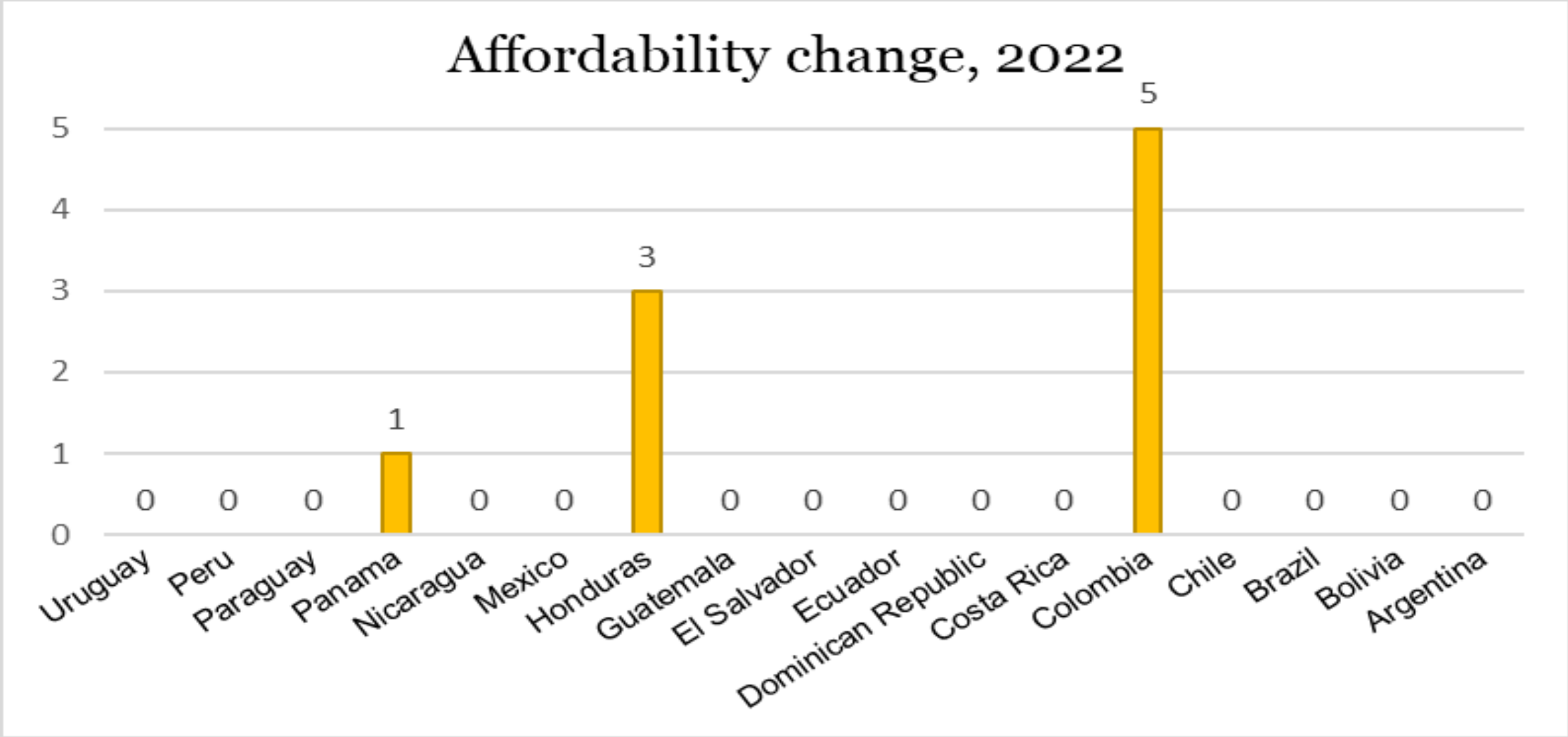
Average affordability change score, globally and by WHO region, 2014–2022

All six regions experienced substantial declines in average score. The highest average score is seen in Western Pacific Region, followed by Africa Region.



Note: Affordability scores from 2020 were revised using the updated affordability measures in the most recent RGTE data (2023). A full list can be found in Appendix 4 of the Scorecard, third edition.

Change in affordability scores in Latin America, 2022





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**Score Component:
Tax Share**

Tax Share Benchmarks

There are two common and related benchmarks of tobacco tax performance that many practitioners and proponents of tobacco taxation use:

1. The WHO currently recommends that the sum of all taxes is greater than 75% of the average retail price of a tobacco product (for example, cigarettes)
2. The second benchmark, whether excise taxes account for at least 70% of tobacco product retail prices, is derived from the 2010 *WHO Technical Manual on Tobacco Tax Administration*
 - *Excise taxes are particularly useful because increases change the price of cigarettes relative to other goods*

Why is Tax Share Important?

The share of tax in retail price is a critical tax performance measure.

- Higher tax shares generally result in higher retail prices, reduced tobacco consumption, and greater government gains in revenue
- When taxes are increased to the recommended share of price, prices typically increase significantly, motivating many users to quit and deterring large numbers of youth from starting to use tobacco

Tax Share Scoring Rubric

- The score averages the Total Tax Share and the Excise Tax Share

Scoring – Total Tax Share:

5: 75% total tax share or higher

4: $65\% \leq \text{share} < 75\%$

3: $55\% \leq \text{share} < 65\%$

2: $45\% \leq \text{share} < 55\%$

1: $35\% \leq \text{share} < 45\%$

0: Total tax share $< 35\%$

Scoring – Excise Tax Share:

5: 70% excise tax share or higher

4: $60\% \leq \text{share} < 70\%$

3: $50\% \leq \text{share} < 60\%$

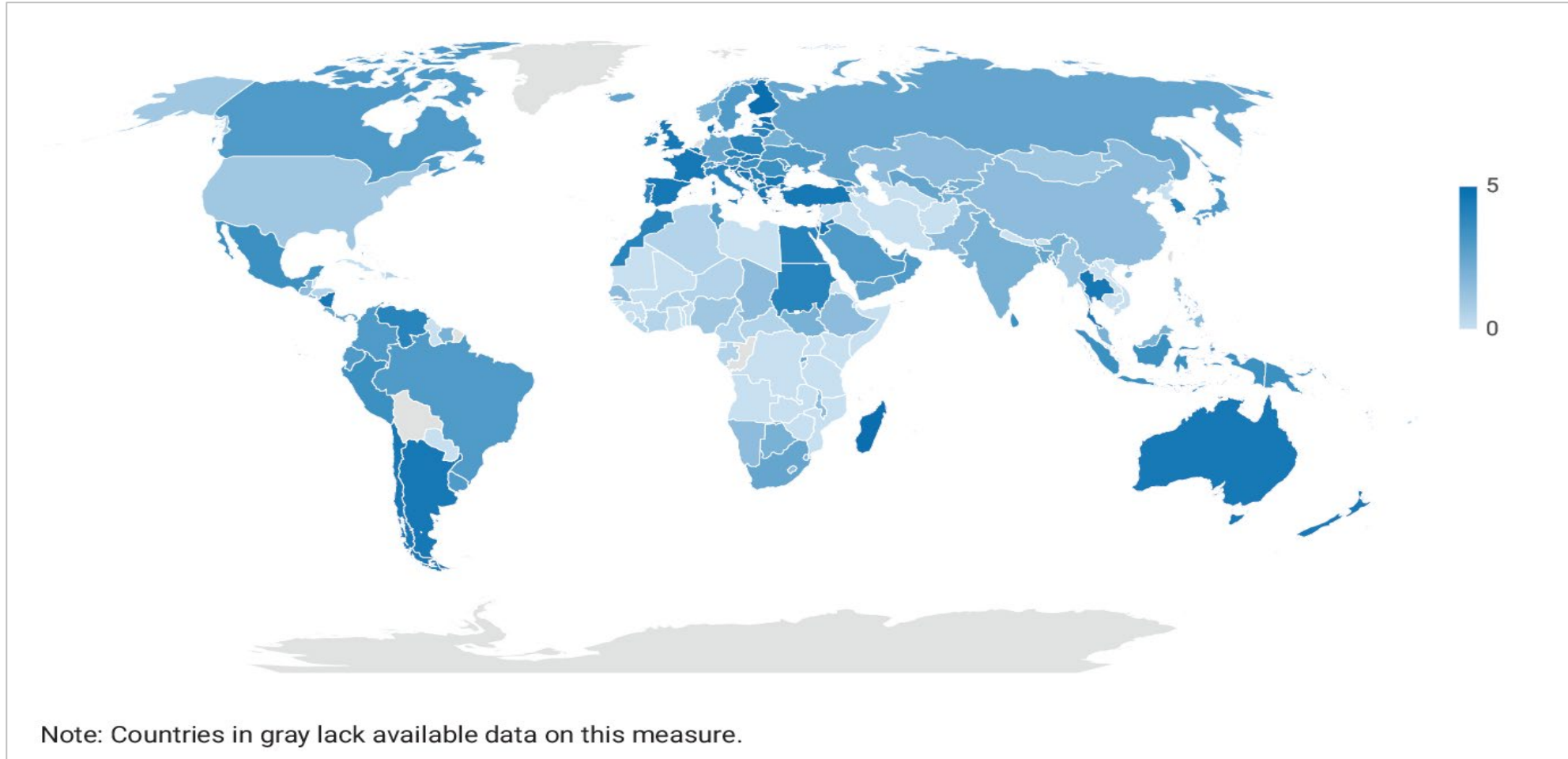
2: $40\% \leq \text{share} < 50\%$

1: $30\% \leq \text{share} < 40\%$

0: Excise tax share $< 30\%$

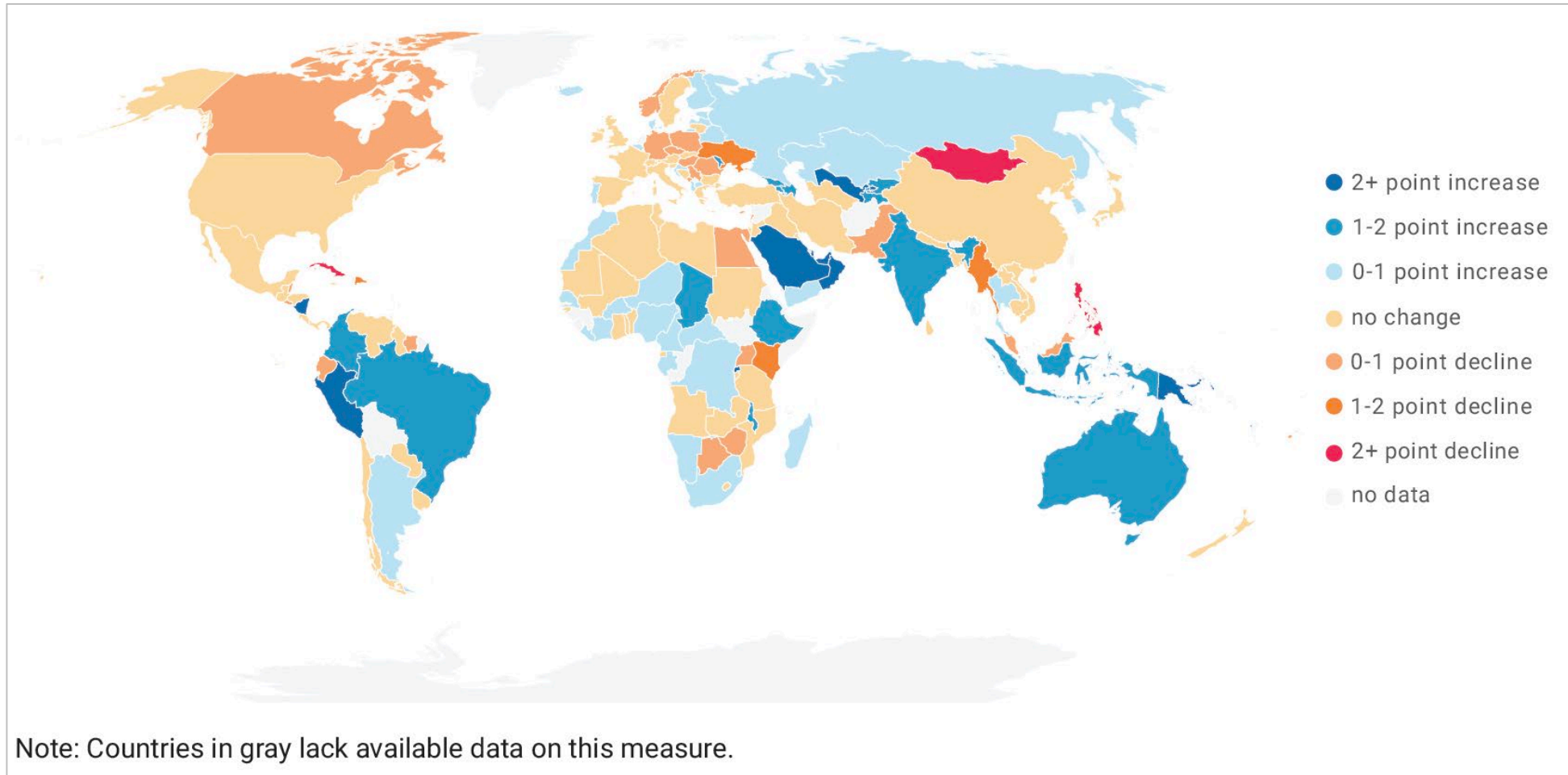
Tax Share Scores in 2022

Only 4 countries received the highest score of five. An additional 36 countries received the highest score for their total tax share but not for their excise tax share. 41 countries scored zero for both total tax share and excise tax share.



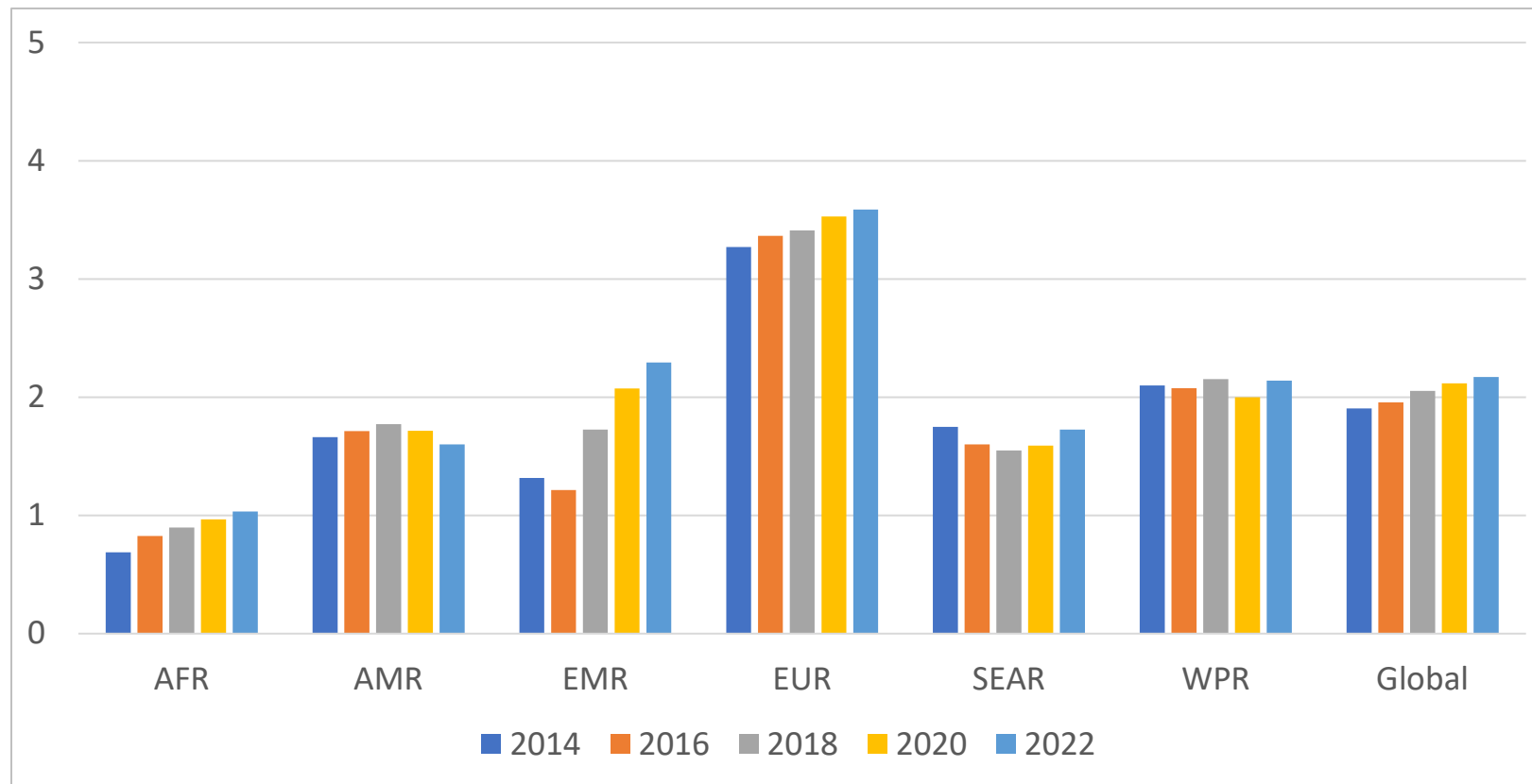
Changes in countries' tax share scores, 2014–2022

There was modest improvement in tax share scores between 2014 and 2022, with the global average score rising from 1.91 in 2014 to 2.17 in 2022. Overall, 73 saw no change in their tax share score from 2014 to 2022, 69 countries saw score increases and scores fell in 38 countries.

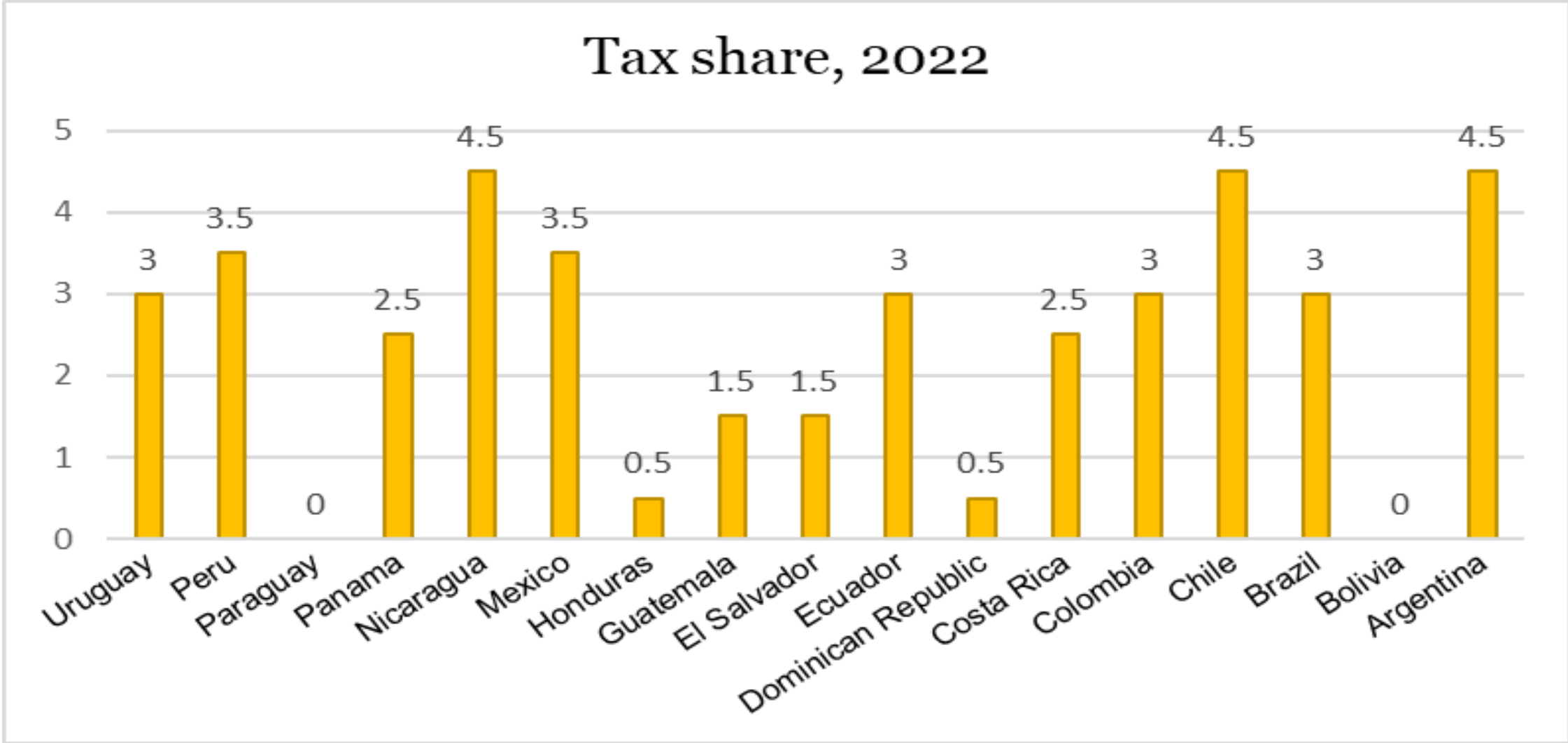


Average tax share score, globally and by WHO region, 2014–2022

Tax shares are highest in the European region while tax shares are lowest in the African region. The EMR experienced the highest average gains in tax share from 2014 to 2022 while WPR had the largest increase in excise tax share from 2020 to 2022.



Tax share scores in Latin America, 2022





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Score Component:
Tax Structure

Typical Cigarette Tax Structures

- Tobacco products are typically subject to **excise** taxes, which are either specific or ad valorem.
 - **Specific** taxes are assessed per unit of the product (for example, a stick or a pack)
 - **Ad valorem** excise taxes are assessed as a percentage of value (for example manufacturer price or retail price).
 - **Hybrid**: both ad valorem and specific taxes are levied.
- Some jurisdictions set different tax levels depending on the product features, such as the length of the cigarette or the pack's price category. These tax structures are usually called **tiered** tax systems.

Why is Tax Structure Important?

Tax structures greatly affect cigarette price and play an important role in the effectiveness of taxation in reaching governments' public health and revenue goals.

- Tax structure affects price variability
- Greater variability in prices creates more opportunities for smokers to “trade down” to cheaper brands in response to tax and price increases, rather than quitting or cutting back on consumption
- Specific excise taxes are reported to be more effective in raising consumer prices compared to ad valorem taxes -- resulting in greater reductions in cigarette consumption
 - A tax structure's complexity and ease of administration impact its effectiveness and resulting government revenue

How Does Tax Structure Affect Consumption?

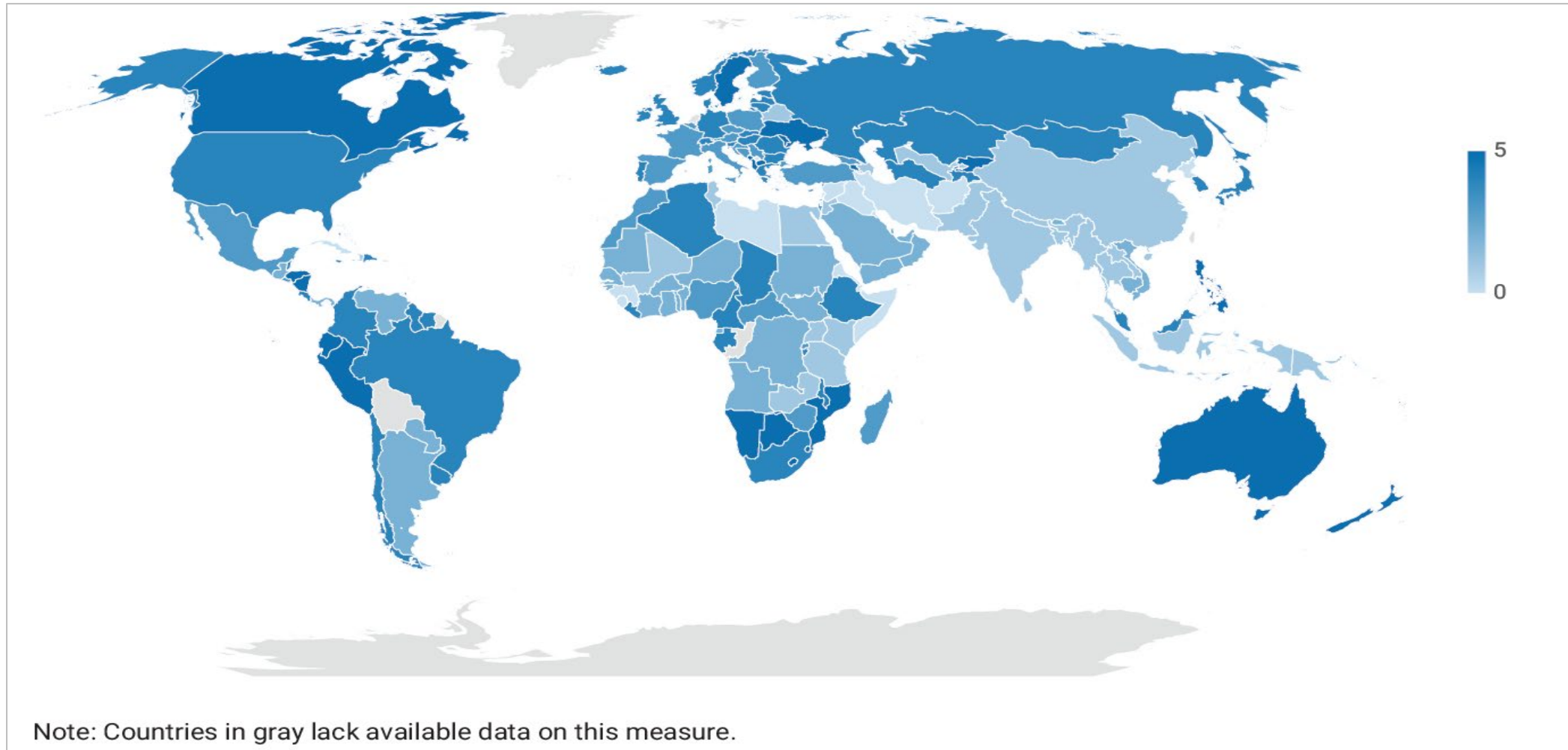
- Specific excise taxes result in greater reductions in cigarette consumption.
- Complicated tax structures, such as tiered tax structures and systems with a greater share of ad valorem taxes, are associated with higher cigarette consumption compared to uniform specific tax structures.

Tax Structure Scoring Rubric

- 5: A uniform specific tax with an automatic inflation or other adjustment; or a uniform mixed system with greater share of specific tax, with an automatic adjustment for the specific component, the retail price as the base for the ad valorem component, and a minimum specific tax
- 4: A uniform specific tax or uniform mixed system with a greater share of specific tax but without other features listed above
- 3: A uniform mixed system with a greater share of ad valorem tax
- 2: A uniform ad valorem tax
- 1: A tiered specific or ad valorem excise tax
- 0: No excise tax

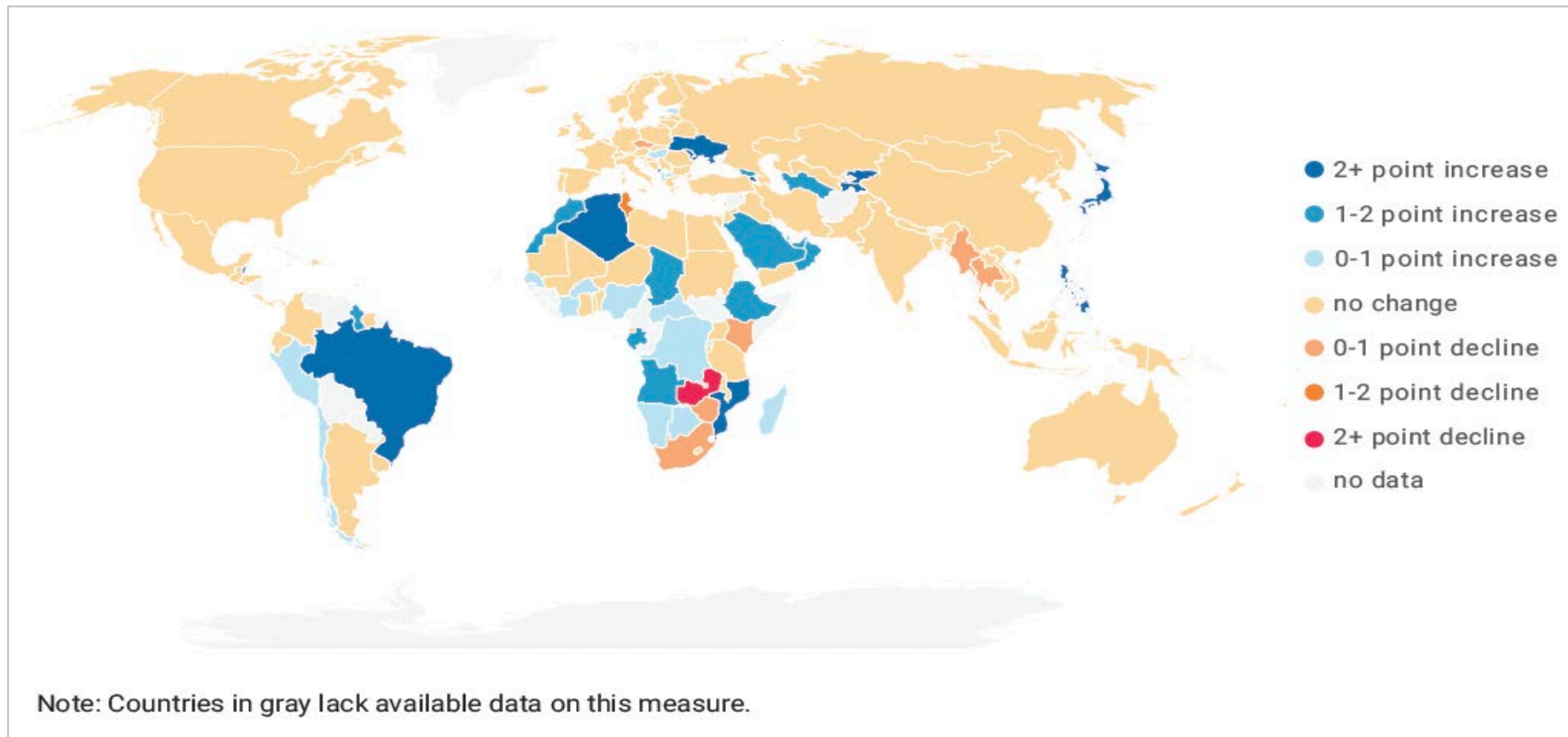
Tax Structure Scores in 2022

21 countries received the highest score of five.



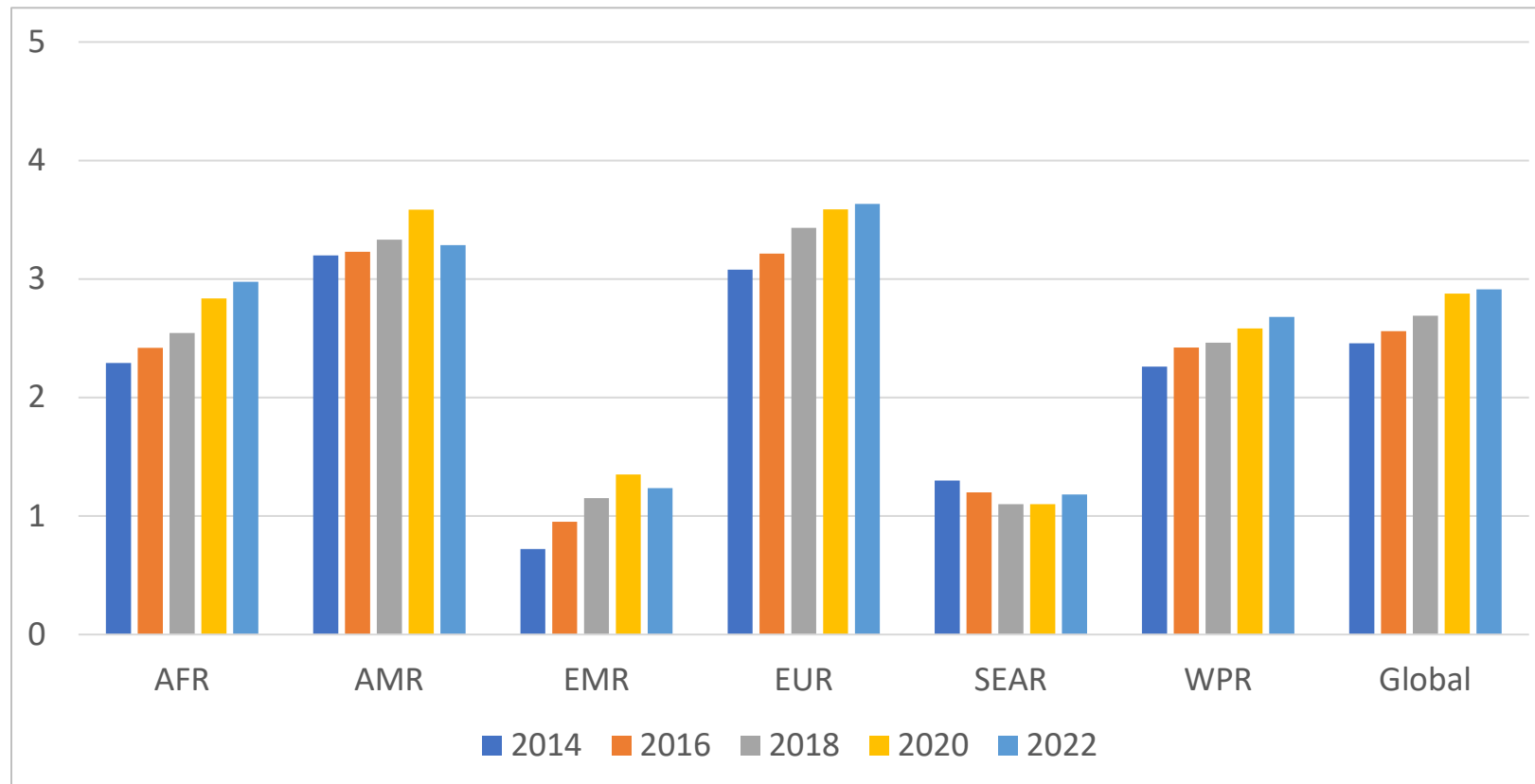
Changes in countries' tax structure scores, 2014–2022

Tax structure scores have improved overall, rising globally from 2.46 in 2014 to 2.91 in 2022. Most countries have not changed their tax structures in the last two years. From 2014 to 2022, 44 countries saw improvements in their tax structure score while 13 saw a decrease.

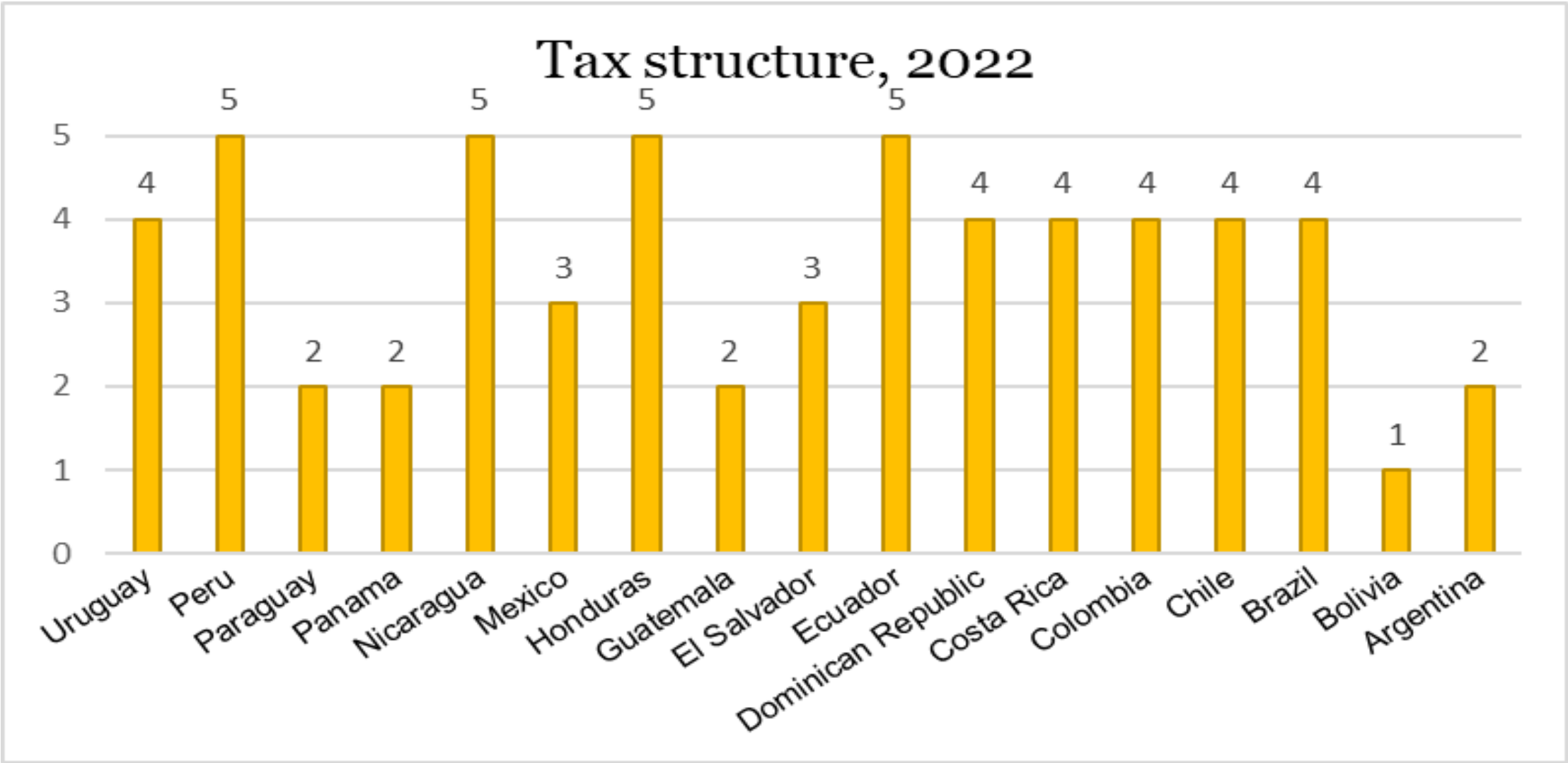


Average tax structure score, globally and by WHO region, 2014–2022

From 2014 to 2020, the African region showed the largest gains in tax structure score average (+0.68 points), while the average in the South-East Asia region decreased slightly (-0.12 points)



Tax structure scores in Latin America, 2022





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Conclusions

Trends

Cigarette Price	Change in Affordability	Tax Share	Tax Structure
<ul style="list-style-type: none"> • Average cigarette prices have decreased across regions, including Latin America. • Consumers react to price so low prices are problematic for improving public health outcomes (i.e., less smoking). 	<ul style="list-style-type: none"> • Less than 20% of countries are achieving the goal of less affordable cigarettes. • In several countries, cigarettes are become more affordable. • Put simply, most governments are not raising taxes enough to affect prices to make cigarettes less affordable. 	<ul style="list-style-type: none"> • Tax share is a reliable indicator of cigarette excise tax performance. • About 2/3rds of countries are still falling well below the evidence-based international minimum benchmarks (75% total tax and 70% excise tax shares). 	<ul style="list-style-type: none"> • We're doing better in the region on this component than the others. • The main challenges include: <ol style="list-style-type: none"> 1) Specific taxes without annual adjustments. 2) Some lingering ad valorem-only systems.

Recommendations

Policymakers should . . .

- Implement regular tax increases that outpace inflation and income growth to increase the price of cigarettes to make them less affordable.
- Emphasize annually adjusted specific excise taxes for ease of administration and to decrease risk of tax avoidance and evasion.
- Ensure that all brands are equally covered by cigarette tax policies.
- Ensure that all legal tobacco products are taxed equally so that there isn't substitution and youth don't start with other products.

In order to . . .

- Protect vulnerable populations (including youth and those in lower socioeconomic groups) who are more sensitive to increases in cigarette price.
- Prevent the expansion of cigarette and other tobacco product markets.
- Improve population health by preventing tobacco-induced disease and death (and accompanying costs including medical expenses, lost productivity, and lives).
- Increase government revenue that can be allocated to development priorities, including health and education.



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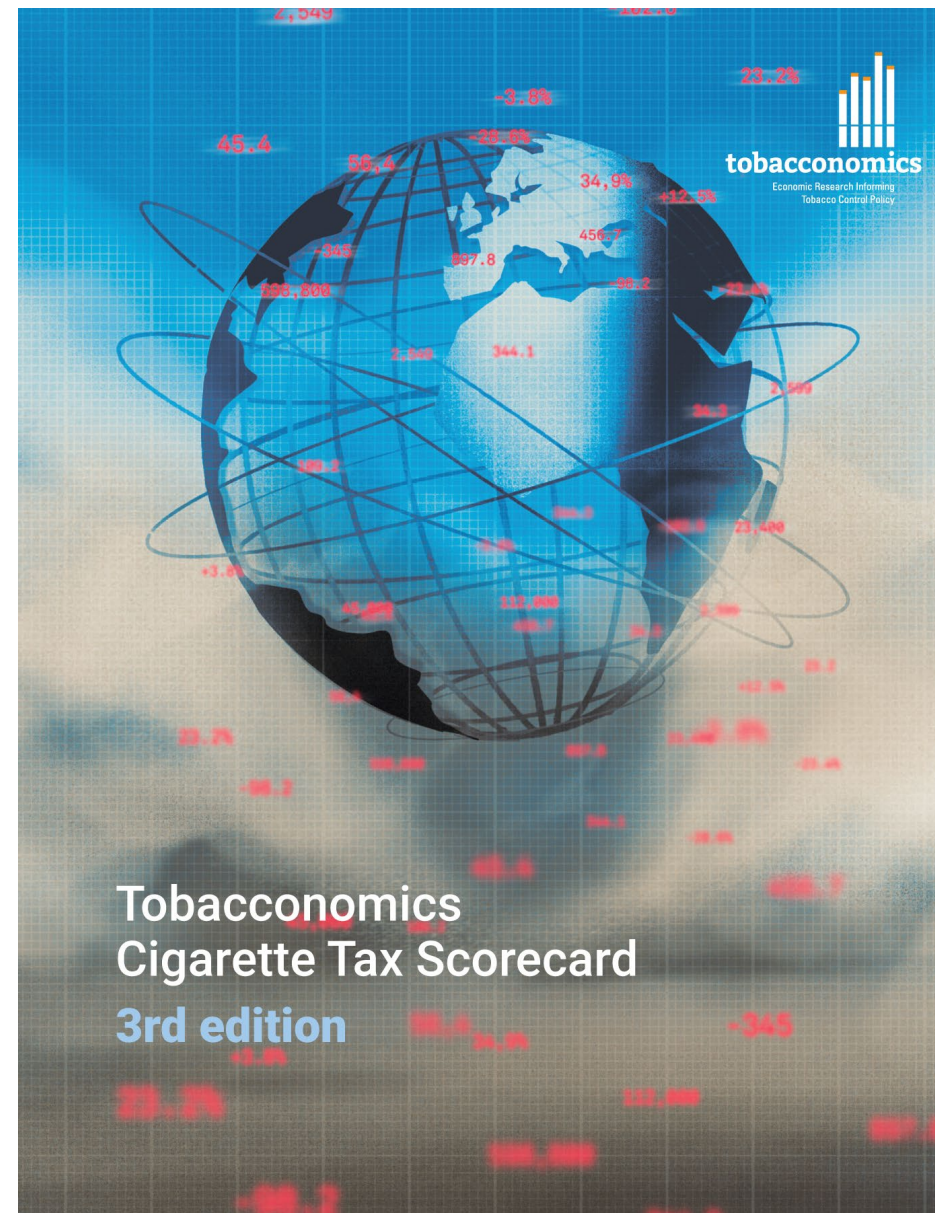
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Q & A

Thank you